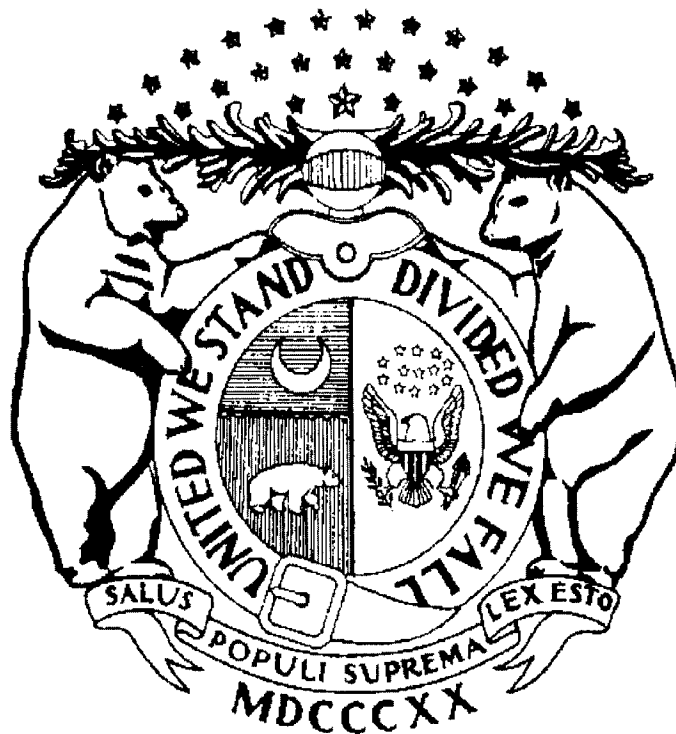


**REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
GOOD HEALTH HMO, INC.
d/b/a BLUE CARE, INC.**

**AS OF
DECEMBER 31, 2004**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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Kansas City, Missouri
March 3, 2006

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Midwestern Zone Secretary

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65102-0690

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Good Health HMO, Inc. d/b/a Blue Care, Inc.

hereinafter referred to as such, as Good Health, or as the Company. Its administrative office is located at 2301 Main Street, Kansas City, Missouri 64108, telephone number 816-395-2222. This examination began on September 12, 2005, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Good Health was made as of December 31, 2001, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC). Good Health does not write business in any other zones.

The current full scope association financial examination covered the period from January 1, 2002, through December 31, 2004, and was conducted by examiners from the States of Missouri and Kansas, representing the Midwestern Zone of the NAIC.

This examination was conducted concurrently with the examinations of the Company's parent, Blue Cross and Blue Shield of Kansas City (BCBS of Kansas City), and an affiliate, Missouri Valley Life and Health Insurance Company (Missouri Valley).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon tests of controls, narrative descriptions, and other information supplied by the Company's independent auditor, Deloitte & Touche, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2004, through December 31, 2004.

Comments - Previous Examination

The comments, recommendations, and notes of the previous financial examination report dated as of December 31, 2001, are listed below with the subsequent response or action taken by the Company in regard to such comments, recommendations, and notes:

Management (Officer Elections)

Comment: The Company was directed to elect a Chairman of the Board of Directors to comply with the provisions of its Bylaws.

Company's Response: The Company agreed to adhere to the provisions of the Bylaws regarding the election of a Chairman to the Board of Directors.

Current Findings: The Board of Directors has elected a Chairman of the Board of Directors, who was serving as of the examination date.

Intercompany Agreements (Provider Agreement with New Directions)

Comment: The Company was directed to file a Form D with the MDI regarding its transactions with New Directions Behavioral Health, LLC, (New Directions) an affiliate, covering behavioral health and substance abuse services provided to the Company by New Directions.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The Company executed an agreement with New Directions for the provision of behavioral health and substance abuse services.

Reinsurance Agreements

Comment: In order to receive the benefits of reinsurance under an a reinsurance agreement between BCBS of Kansas City and a third-party reinsurer, the Company's name must be specifically identified as a named party.

Company's Response: The Company agreed with this recommendation.

Current Findings: The Company was properly identified as a party to the agreements in effect as of the examination date.

HISTORY

General

Good Health HMO, Inc. d/b/a Blue Care, Inc. was incorporated on October 12, 1988, under the provisions of Missouri Revised Statutes Chapter 354, as it pertains to health maintenance organizations. The Company was certified as a Health Maintenance Organization (HMO) on September 28, 1988, and commenced business on January 1, 1989.

Capital Stock

The Articles of Incorporation authorize the Company to issue 30,000 shares of \$100 par value common stock. There were 10,000 shares issued and outstanding for a balance of \$1,000,000 in the Company's common capital stock account, as of December 31, 2004. All the issued and outstanding shares are owned by BCBS of Kansas City, the sole shareholder.

Dividends

Ordinary cash dividends declared and paid by the Company to its sole shareholder during the examination period were \$1,000,000, \$1,500,000 and \$1,500,000 in 2004, 2003 and 2002, respectively.

Management

The management of the Company is vested in a Board of Directors that is required to be elected by the sole shareholder, BCBS of Kansas City. The Company's Bylaws specify that the number of directors shall be no less than three (3). The Board of Directors elected and serving, as of December 31, 2004, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
John W. Kennedy	Overland Park, KS	Executive Vice President, BCBS of Kansas City
Roger L. Foreman	Cameron, MO	Senior Vice President, BCBS of Kansas City
Marilyn T. Tromans	Kansas City, MO	Vice President and Chief Financial Officer, BCBS of Kansas City

Committees

The Bylaws allow for the Board of Directors to form any committees it deems necessary. However, no committees existed during the examination period.

Officers

The Board of Directors annually elects various Company officers, as required by the Bylaws. The senior officers elected and serving as of December 31, 2004, were as follows:

John W. Kennedy*	President and Chief Executive Officer
Marilyn T. Tromans	Treasurer
C. Brent Bertram	Secretary
Bryan F. Miller	Actuary

* David R. Gentile became President and Chief Executive Officer effective May 25, 2005. John W. Kennedy remained as Chairman of the Board of Directors.

Conflict of Interest

The Company has procedures for the disclosure of any conflicts of interest that may exist. All officers and directors are required to complete a conflict of interest statement every year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. Neither the Articles of Incorporation nor the Bylaws were amended during this period.

The minutes of the Board of Directors meetings and the shareholder meetings were reviewed for proper approval of corporate transactions. The minutes, in general, appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None during the examination period.

Surplus Debentures

No surplus debentures were issued or outstanding during the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Good Health's parent, BCBS of Kansas City, on behalf of itself, Good Health, and its other subsidiaries for each year of the examination period.

Good Health is owned 100% by BCBS of Kansas City, which is a not-for-profit, health care insurer that is domiciled in the State of Missouri. BCBS of Kansas City has no stockholders or other ownership. Good Health is ultimately controlled by the Board of Directors of BCBS of Kansas City.

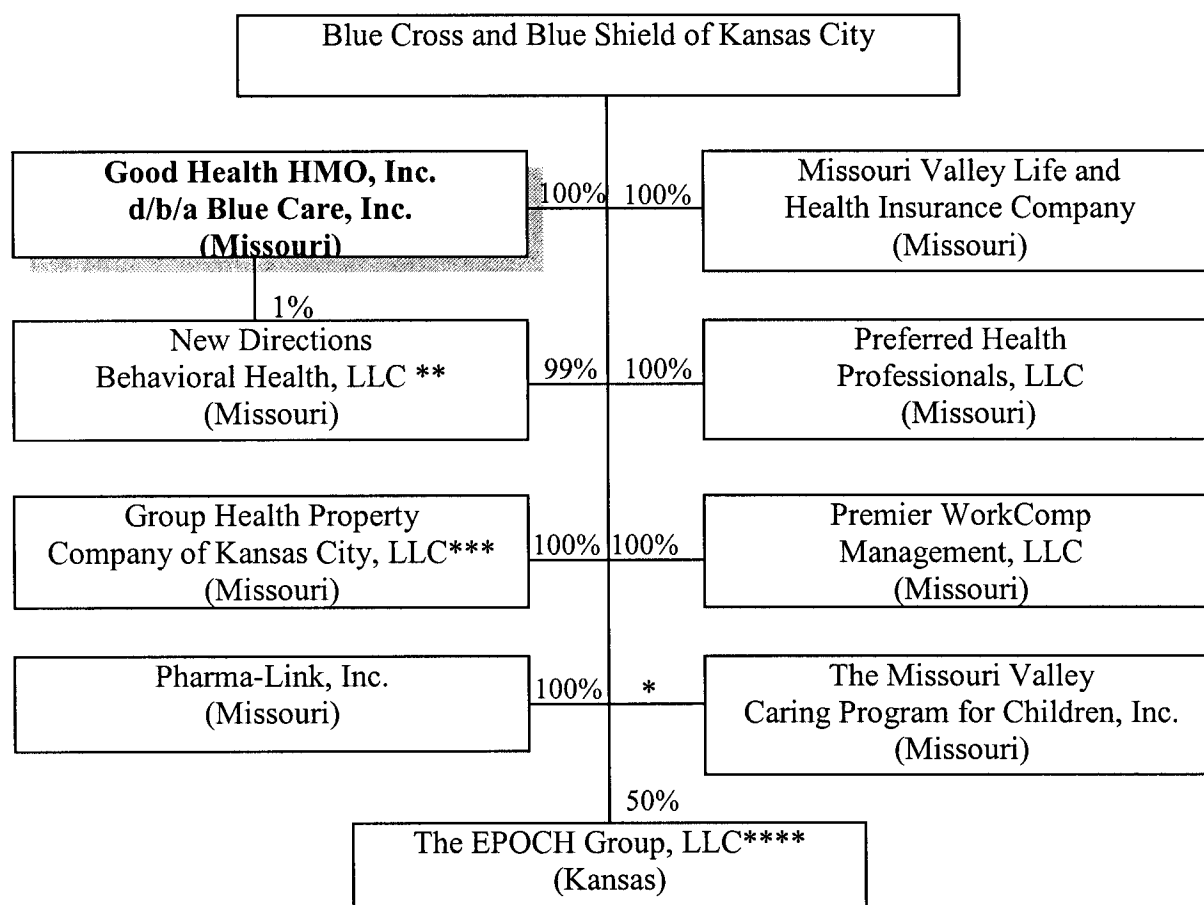
BCBS of Kansas City has several subsidiaries that all have businesses involved in or related to the health care industry. These subsidiaries as of December 31, 2004, are as follows:

- Missouri Valley Life and Health Insurance Company (Missouri Valley) is a Missouri domiciled life and health insurer.
- The EPOCH Group, LLC (EPOCH) provides administrative services for third-party employers that have self-funded health insurance programs.
- Preferred Health Professionals, LLC (PHP) provides network rental and managed care services to groups, third-party claims administrators and insurance companies.
- Premier WorkComp Management, LLC (Premier WorkComp) provides clients with access to a provider network exclusively for the treatment of work-related injuries and illnesses.
- New Directions Behavioral Health, LLC (New Directions) manages behavioral health benefits and provides employees assistance programs for its customers.

- Pharma-Link, Inc. is a shell company with no operations.
- Group Health Property Company of Kansas City, LLC (Property Company) was created to hold BCBS of Kansas City's headquarters building, located at 2301 Main Street, Kansas City, Missouri.
- The Missouri Valley Caring Program for Children, Inc. is a nonprofit shell company with no operations.

Organizational Chart

The following organizational chart depicts Good Health's ownership and holding company system, as of December 31, 2004:



*The Missouri Valley Caring Program, Inc. is a nonprofit corporation, with ownership belonging to its Board of Directors. However, The Missouri Valley Caring Program, Inc.'s Board of Directors is comprised entirely of BCBS of Kansas City officers. Thus, BCBS of Kansas City has control over this entity.

** Through BCBS of Kansas City's 100% ownership of Good Health HMO, Inc. d/b/a Blue Care, Inc., the Company has 100% ownership of New Directions Behavioral Health, LLC.

*** As of September 22, 2005, the Group Health Property Company of Kansas City, LLC was dissolved and all its operations were transferred to BCBS of Kansas City.

**** As of November 30, 2005, BCBS of Kansas City transferred ½% of its interest in EPOCH to Good Health. Subsequently on that same date, EPOCH redeemed a 50% interest of itself from a third party. As a result, BCBS of Kansas City owns 99% of EPOCH and Good Health owns the remaining 1%.

Note: As of April 18, 2005, BCBS of Kansas City organized and incorporated a wholly owned subsidiary, Blue Advantage Plus of Kansas City, Inc.

Intercompany Transactions

The Company's intercompany agreements in effect, as of December 31, 2004, are outlined below:

- 1. Type:** Agreement for the Sharing of Federal Income Taxes and Filing of a Consolidated Tax Return

Affiliates: BCBS of Kansas City, TriLink HealthCare, Inc., Missouri Valley, PHP, Pharma-Link, Inc.

Effective: July 9, 2003

Terms: BCBS of Kansas City will file a consolidated federal tax return for itself and its subsidiaries. The tax liability for each subsidiary shall be based upon each subsidiary's taxable income or loss as reflected in the consolidated financial statements. Each subsidiary will pay its federal income taxes to BCBS of Kansas City. BCBS of Kansas City will collect and remit any tax refunds to the subsidiaries.
- 2. Type:** Ancillary Provider Network Agreement

Affiliates: BCBS of Kansas City, New Directions, TriLink HealthCare, Inc., TriSource HealthCare Inc., BMA Selectcare, Inc., EPOCH, Premier WorkComp, PHP, Healthy Deliveries, LLC, Missouri Valley

Effective: March 1, 2000; amended January 1, 2002, March 1, 2003, January 1, 2004, and January 1, 2005. All amendments were to change capitation rates or extend expiration of capitation rates.

Terms: New Directions agrees to manage and/or arrange for the provision of behavioral health and substance abuse services for BCBS of Kansas City's members and the members of BCBS of Kansas City's subsidiaries. New Directions will

provide for the credentialing reviews of the providers. BCBS of Kansas City will pay New Directions a capitation payment each month that is determined by the per member per month rates specified in the agreement. The rates vary between products sold by BCBS of Kansas City and its subsidiaries.

3. Type: Administrative Services Agreement

Affiliate: BCBS of Kansas City

Effective: January 1, 2003

Terms: BCBS of Kansas City agrees to provide the following administrative services: accounting, budgeting, personnel, payroll, office space, utilities, maintenance, claims processing, purchasing, legal, actuarial, underwriting, cash management, investment, marketing, data processing, and other services. Good Health will pay BCBS of Kansas City the actual expenses incurred for the services provided.

4. Type: Agreement for the Management of Intercompany Payables and Receivables

Affiliates: BCBS of Kansas City, TriLink HealthCare, Inc., Missouri Valley, PHP, Preferred Prescriptions, Inc., Pharma-Link, Inc., BMA SelectCare, Inc., and TriSource Healthcare, Inc.,

Effective: July 1, 2000; amended November 1, 2005

Terms: BCBS of Kansas City shall pay the payables and collect the receivables for its subsidiaries. Separate accounting records will be maintained for the transactions for each subsidiary. Transfers of funds to or from the subsidiaries will be made to minimize uninvested cash balances and to minimize the receivable or payable balance with each subsidiary. BCBS of Kansas City shall pool and retain the consolidated funds resulting from the transactions. BCBS of Kansas City will invest the pooled funds. BCBS of Kansas City shall pay interest or receive interest each month from the subsidiaries based upon the intercompany balance of each subsidiary. The interest rate shall be the applicable federal rate determined by the most recently published Internal Revenue Service in a Revenue Ruling. It was noted that TriLink HealthCare, Inc., Preferred Prescriptions, Inc., BMA SelectCare, Inc., and TriSource Healthcare, Inc. were dissolved before or during the examination period. The Company has since amended the agreement to remove these dissolved subsidiaries and added Blue Advantage Plus of Kansas City, Inc.

Exception: Good Health's cash account was increased by \$506,101 and the amount reported by the Company for Amounts Due to Parent, Subsidiaries and Affiliates was increased by the same amount. This reclassification was made to properly reflect the Company's transaction with BCBS of Kansas City with

respect to the above agreement. See notes 1 and 5 on the Notes to the Financial Statements section of this report for additional details.

5. Type: Guarantor Agreement

Affiliate: BCBS of Kansas City

Effective: January 1, 1993

Terms: In the event of the insolvency of Good Health, BCBS of Kansas City agrees to provide Good Health whatever guarantee or coverage that is necessary to meet all applicable requirements of its business as a state-qualified HMO. This coverage will provide for the continuation of covered benefits to Good Health's members and pay provider expenses, as defined in the agreement.

The Company also has the following intercompany transaction:

Good Health has a group term life insurance policy issued by its affiliate, Missouri Valley. This policy provides a \$5,000 death benefit for members enrolled in the Company's Blue Care individual health products. The life insurance premium is \$1.50 per month for each insured life. Good Health pays premiums to Missouri Valley for the Company's eligible members.

Intercompany Payments

The following table summarizes the net amounts earned or incurred during the examination period, between Good Health and its affiliates:

Agreement or Transaction	Affiliate	Earned (Incurred) By Good Health		
		2004	2003	2002
Sharing of Federal Income Taxes	BCBS of Kansas City	(6,411,800)	(2,560,700)	(3,579,100)
Ancillary Provider Network	New Directions	(2,935,601)	(2,865,243)	(2,525,412)
Administrative Services	BCBS of Kansas City	(18,903,856)	(17,703,227)	(14,991,081)
Management of Intercompany Payables and Receivables	BCBS of Kansas City	17,186	9,959	272
Term Life Insurance Policy	Missouri Valley	(506)	(695)	(945)
Dividends	BCBS of Kansas City	(1,000,000)	(1,500,000)	(1,500,000)
TOTAL		<u>\$(29,234,577)</u>	<u>\$24,619,906</u>	<u>\$22,596,266</u>

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured along with its parent, BCBS of Kansas City, and other affiliates on a financial institution bond. The bond provides fidelity coverage with a liability limit of \$7,500,000 and a \$75,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance, according to NAIC guidelines.

The Company is also a named insured on the following insurance policies: property, umbrella general liability, business automobile with garage keeper, errors and omissions, directors and officers' liability, and computer crime coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Good Health does not have any direct employees. All of the operational and administrative functions of Good Health are performed by the employees of the ultimate parent, BCBS of Kansas City. The Company is allocated a percentage of the benefit costs for BCBS of Kansas City employees, pursuant to an Administrative Service Agreement.

A variety of standard benefits are provided to BCBS of Kansas City employees. These benefits include, but are not limited to, health insurance, dental insurance, disability insurance, life insurance, tuition reimbursement, and a 401(k) savings plan with matching contributions.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 354.410 RSMo (Trust Deposits and Capital Requirements). The Company's required deposit was \$300,000. The funds on deposit, as of December 31, 2004, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$339,000	\$333,101	\$336,437

Deposits with Other States

The Company does not have funds on deposit with any other states.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Good Health is licensed as a Health Maintenance Organization (HMO) by the Missouri Department of Insurance under Chapter 354 RSMo (Health Service Corporations – Health Maintenance Organizations – Prepaid Dental Plans). The Company is also a licensed insurer in the State of Kansas. The Company's service territory is concentrated in the Kansas City, Missouri metropolitan area and Northwest Missouri, which includes nine counties in Missouri and two counties in Kansas.

The Company's HMO product is sold on an individual and group basis and is marketed under the "Blue Care" name. As of December 31, 2004, total membership was approximately 64,400. The Company also has "Cost Plus" business, which provides administrative services for self-insured groups. Some of these groups are partially insured by the Company through stop-loss coverages.

Third-party agents and brokers are utilized to obtain group business. The parent, BCBS of Kansas City, also has a staff of sales employees that sell Good Health's individual and group business. BCBS of Kansas City has its own marketing employees to promote the Blue Care product. Marketing methods include the use of television, radio, newspaper, and magazine advertisements, billboards, direct mail, and telemarketing.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of the issues listed above, as well as reviews of providers/qualifications, contracts, and marketing initiatives which are documented in a separate market conduct report. The MDI conducted a market conduct exam for the period April 1, 2002 through September 30, 2002 with a report issued May 14, 2004. The report resulting from this examination was reviewed and no problems were found that would have a material impact on the Company's financial statements.

REINSURANCE**General**

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Direct Business	\$194,752,307	\$160,830,913	\$129,857,852
Reinsurance Assumed	-0-	-0-	-0-
Reinsurance Ceded:			
Affiliates	-0-	-0-	-0-
Non-affiliates	(82,583)	(73,571)	(50,908)
Net Premiums Written	<u>\$194,669,724</u>	<u>\$160,757,342</u>	<u>\$129,806,944</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Company is reinsured by an excess of loss agreement, effective January 1, 2004 and terminating on December 31, 2004, with BCS Insurance Company. This agreement provides reinsurance coverage for Good Health's commercial HMO and commercial point of service (POS) products, in and out of network. The Company's retention is \$500,000 per member per year. The reinsurance coverage is 90% of the expenses in excess of the retention for LifeTrac or Blue Quality Centers for Transplants providers, 80% for fixed fee providers and 50% for non-fixed fee providers. Per diem limits of \$2,000 apply for acute care. The maximum reinsurance liability is \$2,000,000 per member per lifetime.

This reinsurance treaty was renewed effective January 1, 2005, with the same basic terms and provisions as noted above. However, the Company failed to file this new agreement with the MDI within 10 days of execution pursuant to Missouri Regulation, 20 CSR 400-7.140 (2), Health Maintenance Organizations - Reinsurance Agreements. The Company is directed to comply with this regulation.

ACCOUNTS AND RECORDS

General

The CPA firm, Deloitte & Touche, LLP, of Kansas City, Missouri, issued audited statutory financial statements of the Company for all years in the examination period.

Policy and claim reserves were reviewed and certified by David O. Thoen, FSA, MAAA, with Deloitte & Touche Consulting LLP of Minneapolis, Minnesota.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Good Health for the period ending December 31, 2004. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the “Notes to the Financial Statements.” The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$48,989,119		\$48,989,119
Cash and Short-term Investments (Note #1)	6,650,164	(\$506,101)	7,156,265
Investment Income Due and Accrued	414,907		414,907
Uncollected Premiums and Agents' Balances	3,203,384		3,203,384
Amounts Receivable on Uninsured Plans	1,591,279	22,000	1,569,279
Net Deferred Taxes	647,000	647,000	0
Health Care Receivable	<u>1,111,421</u>	<u>460,421</u>	<u>651,000</u>
TOTAL ASSETS	<u>\$62,607,274</u>	<u>\$623,320</u>	<u>\$61,983,954</u>

Liabilities, Surplus and Other Funds

Claims Unpaid (Note #2)	\$15,743,128
Accrued Medical Incentive Pool and Bonus Payments	602,565
Unpaid Claims Adjustment Expenses (Note #2)	798,328
Premiums Received in Advance	1,785,905
General Expenses Due or Accrued	1,519,828
Federal Income Tax Payable (Note #3)	1,849,536
Amounts Due to Parent, Subsidiaries and Affiliates (Note #4), (Note #5)	4,869,377
Aggregate Write-Ins for Liabilities:	
Uncashed Checks Pending Escheatment	<u>107,741</u>
TOTAL LIABILITIES	\$27,276,408
Common Capital Stock	1,000,000
Unassigned Funds (Surplus)	<u>33,707,546</u>
Capital and Surplus	<u>\$34,707,546</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$61,983,954</u>

Statement of Revenue and Expenses

Net Premium Income	<u>\$194,669,724</u>
TOTAL REVENUES	<u>\$194,669,724</u>
Hospital/Medical Benefits	113,224,898
Emergency Room and Out-of-Area	8,045,659
Prescription Drugs	33,384,497
Incentive Pool and Withhold Adjustments	837,270
Claim Adjustment Expenses	7,289,325
General Administrative Expenses	14,829,290
TOTAL UNDERWRITING DEDUCTIONS	<u>\$177,610,939</u>
NET UNDERWRITING GAIN (LOSS)	<u>\$17,058,785</u>
Net Investment Income Earned	1,368,862
Net Realized Capital Gains or (Losses)	30,322
Federal Income Taxes Incurred	<u>(6,411,800)</u>
NET INCOME (LOSS)	<u>\$12,046,169</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2003	\$25,172,606
Net Income	12,046,169
Change in Non-Admitted Assets	(54,236)
Change in Net Deferred Income Tax	238,000
Dividends to Stockholders	(1,000,000)
Examination Changes	<u>(1,695,000)</u>
 Net Change in Capital and Surplus	 <u>\$9,534,933</u>
 CAPITAL AND SURPLUS, DECEMBER 31, 2004	 <u>\$34,707,539</u>

Notes to the Financial Statements

Note 1 – Cash and Short-term Investments

\$7,156,265

The amount reported for this account was increased by \$506,101 and the amount reported for Amounts Due to Parent, Subsidiaries and Affiliates was also increased by the same amount. This reclassification was made to properly reflect Good Health's transactions with BCBS of Kansas City with respect to cash management operations. The \$506,101 amount reported by Good Health as a contra cash balance is actually a payable to BCBS of Kansas City pursuant to an intercompany payable and receivable agreement between the parties for claims paid by BCBS of Kansas City on Good Health's behalf. Although this reclassification is surplus neutral, the Company is directed to report the effect of its agreement with related parties in the appropriate lines of the Annual Statement.

At December 31, 2004, the Company erroneously reported this amount payable to BCBS of Kansas City on the Schedule E – Part 1 of the Annual Statement as part of its cash account, in an overdrawn position. The examination was unable to confirm this balance with the indicated bank, as the amount does not exist with the bank. The Company is directed to report as its cash only those amounts that reside with the bank and can be verified through direct confirmation by the examination process.

Note 2 – Claims Unpaid

\$15,743,128

Note 2 – Unpaid Claims Adjustment Expenses

\$798,328

The amount reported by the examination for Good Health's Unpaid Claims reserves was increased by \$1,613,000 and the amount reported for the Unpaid Claims Adjustment Expenses was increased by \$82,000. These increases were determined by the MDI's consulting actuary, Milliman, Inc., based on the run out data of the Company's claims, which showed an adverse development as of June 30, 2005. The MDI has restated these reserves to cure the deficiency indicated by the consulting actuary. The Company is directed to review its unpaid claims reserving methodology to ensure that year-end reserves are adequate when reviewed for subsequent development.

Note 3 – Federal Income Tax Payable

\$1,849,536

The amount reported by the Company for this account was increased by \$1,725,600 to reflect improper classification by the Company of unpaid federal income taxes at year-end 2004 that was classified as part of intercompany payables. In line with the NAIC's Annual Statement instructions, unpaid federal income taxes resulting from a consolidated tax arrangement should be reported as part of Federal Income Taxes Payable" and not as a payable to a related party. The Company is directed to properly report this transaction in the future.

Notes 4 and 5– Amounts Due to Parent, Subsidiaries and Affiliates **\$4,869,377**

The amount reported by the Company for this account was decreased by \$1,725,600 to correct improper presentation resulting from a consolidated income tax arrangement as noted in Note #3 above. The Company is directed to properly and accurately report the underlying transaction in the future.

The amount reported for this account was also increased by \$506,101 to recognize and properly report amounts due to BCBS of Kansas City for claims and other outlays paid for Good Health for which reimbursement is due pursuant to an intercompany payable and receivable agreement between the parties. As noted in Note #1 above, Good Health improperly reported this liability as a contra cash account balance at year-end 2004. The Company is directed to accurately account and report transactions originating from the various intercompany agreements, based on NAIC's Annual Statement instructions.

Examination Changes

Capital and Surplus Per Company, December 31, 2004:

Common Stock	\$ 1,000,000
Unassigned Funds	<u>35,402,546</u>
Total Capital and Surplus Per Company	\$36,402,546

Examination Changes*:

Increase Claims Unpaid Liability (Note 2)	(\$1,613,000)
Increase Unpaid Claims Adjustment Expenses (Note 2)	<u>(82,000)</u>
Total Examination Changes	(\$1,695,000)

Capital and Surplus Per Examination, December 31, 2004:

Common Stock	\$ 1,000,000
Unassigned Funds	<u>33,707,546</u>
Total Capital and Surplus Per Examination	<u>\$34,707,546</u>

* Does not include reclassification changes, which have zero net effect on capital and surplus.

General Comments and/or Recommendations

Ceded Reinsurance Agreement (page 12)

The Company has a ceded reinsurance agreement with BCS Insurance Company. The agreement was renewed effective January 1, 2005. However, the Company failed to file this new agreement with the MDI within 10 days of execution pursuant to Missouri Regulation, 20 CSR 400-7.140 (2), Health Maintenance Organizations - Reinsurance Agreements. The Company is directed to comply with this regulation.

Cash and Short-term Investment (page 16)

The Company improperly reported payables to BCBS of Kansas City originating from related party transactions as a contra asset account, contrary to proper reporting in accordance with the NAIC's Annual Statement instructions. The Company is directed to report the effect of its agreement with related parties in the appropriate lines of the Annual Statement.

The Company also improperly reported as cash in the schedules of the Annual Statement, an amount that was due and payable to BCBS of Kansas City pursuant to a certain intercompany agreement. The examination was unable to confirm this balance with the indicated bank, as the amount does not exist with the bank. The Company is directed to report as its cash only those amounts that reside with the bank and can be verified through direct confirmation by the examination process.

Unpaid Claims and Unpaid Claims Adjustment Expenses (page 16)

The amounts reported by the Company for these actuarially determined liabilities were determined to be deficient based on the work of the MDI consulting actuary. The MDI has restated these reserves to cure the deficiency indicated by the consulting actuary. The Company is directed to review its unpaid claims reserving methodology to ensure that year-end reserves are adequate when reviewed for subsequent development.

Federal Income Tax Payable (page 16)

In line with the NAIC's Annual Statement instructions, unpaid federal income taxes resulting from a consolidated tax arrangement should be reported as part of "federal income taxes payable" and not as a payable to a related party, as reported by the Company during the examination period. The Company is directed to properly report this transaction in the future.

Amounts Due to Parent, Subsidiaries and Affiliates (page 17)

The amount reported by the Company for this account was adjusted by the examination to account for improper presentation at year-end, 2004 resulting from related party agreements. The Company is directed to accurately account and report related party transactions on the Annual Statements in accordance with NAIC's instructions.

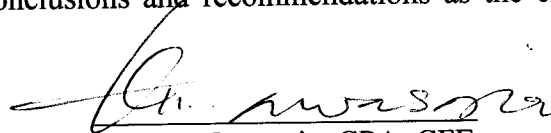
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Good Health HMO, Inc. d/b/a Blue Care, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Bernie Troop, CFE, Alvin Garon, CFE, Leslie Nehring, CFE, and Andy Balas, CFE, AES, examiners for the Missouri Department of Insurance, participated in this examination. In addition, Bertram Oparaji, CFE, representing the Kansas Department of Insurance also participated in the examination. The firm of Milliman, Inc., of St. Louis, Missouri also participated as a consulting actuary.

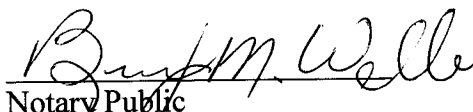
VERIFICATION

State of Missouri)
)
 County of)

I, Levi N. Nwasoria, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Good Health HMO, Inc. d/b/a Blue Care, Inc., its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


 Levi N. Nwasoria, CPA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance

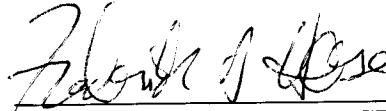
Sworn to and subscribed before me this 7th day of April, 2006.

My commission expires: 03/17/2008 
 Notary Public

BEVERLY M. WEBB
 Notary Public - Notary Seal
 STATE OF MISSOURI
 County of Jackson
 My Commission Expires: March 17, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance



BlueCross BlueShield of Kansas City

An Independent Licensee of the
Blue Cross and Blue Shield Association

One Pershing Square
2301 Main
P.O. Box 419169
Kansas City, MO 64141-6169
Telephone: 816-395-2222
www.bcbskc.com

June 9, 2006



Mr. Kirk Schmidt
Missouri Department of Insurance
PO Box 690
Jefferson City, MO 65102-0690

RE: Response to Exam: Blue Cross Blue Shield of Kansas City, Missouri Valley Life
and Health Insurance Company and Good Health HMO, Inc. d/b/a Blue-Care

Dear Mr. Schmidt:

This letter is in response to your letter of May, 11, 2006 requesting written verification of compliance with the comments and recommendations from the financial examination for the above companies as of December 31, 2004. We request that our responses be included in the report as a public document.

Attached are responses to issues raised for each company separately. If after reading these responses you have additional questions, you can reach me at 816-395-2750, or by e-mail at marilyn.tromans@bcbskc.com.

Sincerely,

Marilyn Tromans
Vice President, CFO

MT:lp

Attachments

**RESPONSES TO GENERAL COMMENTS AND/OR RECOMMENDATIONS –
FINANCIAL EXAMINATIONS OF GOOD HEALTH HMO, D/B/A BLUE-CARE**

1. Ceded Reinsurance Agreement (page 12) - The PPO stop-loss agreement was filed with the Department on March 13, 2006. The Medicare Supplement and HMO agreements were filed with the Department on April 21, 2006. When agreement is reached with the reinsurer on these agreements, the Company executes the documents first and then forwards them to the reinsurer to sign, per the reinsurer's instruction. In each case, the Company sent copies of the fully-executed agreements to the Department the day after they were received from the reinsurer.

2. Cash and Short-Term Investments (page 16) – In the future the Company will properly report amounts due and payable to BCBS of Kansas City as Amounts Due to Parent, Subsidiaries and Affiliates, and not report these amounts as Cash.

3. Unpaid Claims and Unpaid Claims Adjustment Expenses (page 16) – We disagree with the conclusion of the MDI's consulting actuary that Good Health's Unpaid Claims reserves should have been increased by \$1,613,000. The paid claim data file that the MDI consulting actuary used included an unusually high and late payment in June 2005 for a 2004 claim. We believe that the consulting actuary should have handled this claim differently in their IBNR recalculation.

We believe our unpaid claims reserving methodology is sound. In addition to our employed actuaries, we have Deloitte & Touche actuaries review our December 31 unpaid claims reserves before closing the year end financial records.

4. Federal Income Tax Payable (page 16) – The Company agrees with this finding and has corrected the reporting.

5. Amounts Due to Parent, Subsidiaries and Affiliates (page 17) – In the future the Company will properly report amounts due and payable to BCBS of Kansas City as Amounts Due to Parent, Subsidiaries and Affiliates, and not report these amounts as Cash.